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Mind the Gap 2026: Country fiche – Cyprus

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Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

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Country fiche: Cyprus

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Cyprus is further digitalising its tax administration.** Cyprus is expanding the use of Artificial Intelligence (AI) to support taxpayers through a chatbot, while further AI functionalities are planned for the "Tax for All" system. E-filing rate for VAT, personal income tax (PIT) and corporate income tax (CIT) is above the EU average.
- **Cyprus' VAT compliance gap was among the lowest in the EU in 2023, at 3% of the VAT Total Tax Liability (VTTL).** The launch of the digital "Tax For All" portal as well as future transposition of the VAT in the Digital Age (ViDA) package could further improve VAT compliance.

Areas for Improvement

- **There is scope to invest in quantifying compliance tax gaps.** Robust estimates can guide policy makers and the tax administration in their efforts to strengthen tax collection. Research to identify the different tax gaps, in particular for PIT and CIT, could help to improve understanding of the underlying drivers of the shadow economy. Over time, more effective compliance efforts could in turn help reduce the shadow economy.
- **Further developing tax expenditure (TE) reporting would improve fiscal transparency and accountability.** The full fiscal impact of TEs throughout Cyprus' tax system is likely greater than reported, as TE reporting in Cyprus is limited in terms of scope and the level of detail, resulting in a lack of fiscal transparency. TE reports could provide a more comprehensive overview of TEs and disclose the revenue impacts of the most significant structural provisions.
- **Cyprus could make tax collection more efficient by putting in place a tax recovery strategy and overcoming persistent challenges that hinder the recovery of tax arrears.** By classifying taxpayers based on their risk of non-payment, the strategy could tailor recovery efforts appropriately, focusing resources on areas where they will be most effective. Tax arrears remain high: the closing stock of arrears was 57.3% of total revenue in 2024 (EU average: 30.7%), with collectable arrears standing at 54.5%. The digitalisation of the administration may facilitate the implementation of its tax recovery strategy and may enable the targeted deployment of recovery efforts based on risk analysis.
- **Cyprus faces significant challenges with processing and using data resulting from the automatic exchange of information under the DAC, in particular DAC3, DAC4 and DAC6.** To improve tax revenue collection, Cyprus should take concrete actions to identify the taxpayers concerned by these Directives, report the matching rates to the Commission, and systematically use the available data to step up its efforts to tackle tax evasion and avoidance. Cyprus should also make better use of the information obtained by financial institutions under DAC2, notably as regards legal entities that are not targeted by the administration. At present, this information is used only in tax audits initiated in response to specific data triggers, rather than in broader compliance campaigns.

1. Introduction and policy context

1.1. Snapshot of the tax system

The tax-to-GDP ratio has increased recently in Cyprus on the back of labour taxes. Tax revenue (including social contributions) increased to 36.3% of GDP in 2024, a new historic high (EU average: 39.4%) ([1]). Cyprus obtained 41.7% of its tax revenue from labour taxes, approximately 10 percentage points (pps) below the EU average; this share used to be under 35% until 2018, after which successive increases in social contributions rates have been implemented. Consumption taxes accounted in 2024 for 32.4% of total tax revenue, well above the EU average (26.8%). VAT revenues are relatively high (9.1% of GDP, 2.0 pps above the EU average) in a context of low compliance gap. At 25.9% of total, the share of capital taxes also outpaces that of the EU (21.6%), on the back of a strong reliance on revenues from corporate income tax (CIT). The latter amounted to 6.9% of GDP in 2024, compared to 3.1% EU-wide. By contrast, revenues from property taxes are very low, particularly revenues from recurrent taxes on immovable property. Revenues from environmental taxes are in line with the EU average.

The redistributive effect of the tax-benefit system is among the lowest in the EU. Labour taxation is somewhat progressive in Cyprus, although less than in other EU peers. The difference in the tax wedge ([2]) between high-income (167% of average wage) and low-income earners (50% of average wage) was of 9.7 pps in 2025, 2.8 pps below the EU average. The ability of Cyprus' tax-and-benefit system to reduce the Gini coefficient ([3]) has decreased in recent years and, at 4.6 pps in 2024, was among the lowest in the EU (average of 7.8 pps). Income concentration is moderate, as the income quintile share ratio (S80/S20) was 4.60 in income reference year 2024, similar to the EU average (4.62) ([4]). Finally, the at-risk-of-poverty or social exclusion rate (AROPE) is below the EU average (17.1% vs 20.9%) ([5]).

In 2026, Cyprus did not receive country-specific recommendations (CSRs) in the area of taxation ([6]). The country is not under the Excessive Deficit Procedure, as it registered in 2025 a government surplus of 3.4% of GDP and a public debt of 55%.

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[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 35.0% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[3] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[4] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

[5] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.

[6] https://data.consilium.europa.eu/doc/document/ST-11125-2026-INIT/en/pdf.

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Cyprus' tax system appears moderately complex overall, though taxpayer perceptions are somewhat more favourable than what structural indicators would suggest. Survey-based evidence from the Tax Complexity Index (TCI) places Cyprus around the middle of the EU distribution, ranking 14th among Member States. The underlying components of the TCI suggest that complexity arises somewhat more from the tax code than from administrative procedures ([7]). Citizen perceptions are comparatively positive: 52% of respondents report that completing their tax return is easy, above the EU average of 49%, although reliance on professional assistance is above average at 11% ([8]).

Legislative activity was comparatively high in 2025. Cyprus recorded 19 tax changes entering into force or announced in 2025, compared with an EU average of around 14 ([9]). Previous years saw 19 tax changes in 2024, 11 in 2023 and 16 in 2022, with the number of tax changes remaining at or below the corresponding EU average in each of these years. The available multi-year evidence therefore does not point to persistently elevated legislative activity, despite the increase relative to the EU average in 2025. A large share of the reforms adopted in 2025 forms part of the comprehensive Cyprus Tax Reform, which introduces changes across personal income tax (PIT) and CIT, capital gains taxation, VAT and tax administration. Business-related measures include an increase in the CIT rate from 12.5% to 15%, the extension of R&D incentives and enhanced capital allowances, simplification of the taxation of crypto-assets and interest income, as well as a range of measures aimed at strengthening tax compliance and digital reporting. While many of these reforms pursue objectives related to competitiveness, investment and simplification, their breadth requires taxpayers and businesses to adapt to a substantial number of new provisions within a relatively short period.

Demand-side indicators provide additional support for this assessment. The accounting, bookkeeping and tax consultancy sector accounts for around 1.5% of gross operating surplus, above the EU average of 0.9% ([10]). While this indicator is influenced by several factors, it points to a comparatively sizeable professional services sector and is consistent with relatively strong demand for specialised tax and accounting expertise ([11]). Overall, the evidence suggests that Cyprus

[7] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).

[8] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.

[9] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

[10] A higher share of gross operating surplus indicates that the accounting, bookkeeping and tax consultancy sector generates a relatively larger share of operating profits and value added in the economy. While not a direct measure of tax complexity, it may point to a comparatively important professional services sector and, indirectly, to greater demand for specialised tax and accounting expertise.

[11] While some cross-border provision of accounting, tax consultancy and related services may be captured through imports and exports of services, available evidence suggests that such flows are relatively limited. In particular, data from the Eurostat's EU inter-country supply table at basic prices (reference year 2023) indicate that cross-national transactions in these services represent only a small share of overall activity, if any, suggesting that their impact on the interpretation of domestic sector size is likely to be limited.

combines moderate structural tax complexity with relatively manageable taxpayer experiences and high legislative activity.

1.2.2. National simplification efforts

In December 2025, Cyprus adopted a comprehensive package of tax reforms, which included several measures aimed at simplification. From 1 January 2026, the abolition of the Stamp Duty Law is expected to reduce transaction costs, simplify administrative procedures and support market liquidity ([12]). Major changes are related to the Special Defence Contribution ([13]), narrowing significantly the scope of the tax ([14]). The reforms abolish the Special Defence Contribution on rental income and on interest income earned by companies, while reducing the rate on dividend income from 17% to 5%. They also abolish the Deemed Dividend Distribution regime ([15]), aligning dividend taxation with actual economic distributions. Overall, the changes reduce the tax burden on passive income and simplify the corporate tax framework. In addition, gains from crypto-asset transactions are now taxed at a flat rate of 8% ([16]). The period for carrying forward tax losses has been extended from five to seven years (subject to conditions), allowing companies greater flexibility in utilising losses ([17]). Higher transfer pricing documentation thresholds now apply, reducing reporting obligations for smaller taxpayers ([18]). Finally, personal income is also subject to a higher tax-free threshold ([19]), and the thresholds for lifetime capital gains exemptions have also been raised ([20]).

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([21]). The shadow economy is an analogous but narrower concept – used in the economic literature and measured via macroeconomic models – that usually encompasses only legal, market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations and

[12] Law 239(I)/2025, Law Repealing the Stamp Duty Laws of 1963 to 2025, Official Gazette of the Republic, 31 December 2025.
[13] A tax levied on certain types of passive income earned by Cyprus tax-resident individuals and companies, originally introduced to fund national defence expenditure and distinct from other forms of income tax.
[14] Special Contribution for the Defence (Amending) Law of 2025, amending Law 117(I)/2002, Official Gazette of the Republic, 31 December 2025
[15] Cyprus's Deemed Dividend Distribution rule treated undistributed profits as if they had been paid out as dividends. It applied where a Cyprus-resident company failed to distribute at least 70% of its after-tax profits within two years. The deemed dividend was subject to 17% Special Defence Contribution only for Cyprus-domiciled shareholders.
[16] Income Tax (Amending) Law of 2025, amending Law 118(I)/2002, Official Gazette of the Republic, 31 December 2025
[17] Ibidem
[18] Ibidem
[19] EUR 22 000, up from EUR 19 500.
[20] Capital Gains Tax (Amending) Law of 2025, amending the Capital Gains Tax Law, Law 52/1980, Official Gazette of the Republic of Cyprus, Annex I(I), No. 5070, on 31 December 2025
[21] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6). Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

Specifically, recent data from official sources ([22]) allow to estimate the size of the NOE in Cyprus at 3.8% of GDP for 2022. The NOE comprises the underground economy (2.7%) and statistically deficiencies (0.6%) and illegal economy (0.34%), while illegal economy represents only 0.34% of GDP. Cyprus thus records a NOE below the EU average (7.4% of GDP) ([23]). The largest part of NOE is concentrated in 'Professional, scientific and technical activities' (1.4%) of total GVA), followed by 'Accommodation and food service' (0.63%). At industry level, the highest shares of NOE are presented by 'Other service activities' (37% of its GVA), 'Arts, entertainment and recreation' (23.6%), and 'Professional, scientific and technical activities' (18%).

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Cyprus are higher than the NOE estimate discussed above**.** In 2022, the shadow economy in Cyprus represented 23.9% of GDP, according to estimates by Schneider and Asllani for the European Parliament ([24]). This ratio is 6.3 pps above the EU-27 unweighted average and it has decreased compared to 2003 (28.7% of GDP). The report indicates that indirect taxes and self-employment are the main drivers of the shadow economy in Cyprus. Several other studies provide estimates of similar magnitude for the size of the shadow economy ([25]). However, using a currency demand approach (CDA), a recent study by EY ([26]) reports lower estimates for the Cypriot shadow economy at 5.3% of GDP in 2023 (EU average 7.9%), down from 5.6% in 2000 (EU average 13.2%).

2. Compliance tax gaps

2.1 Overview

Cyprus is not among the EU Member States that officially estimate or publish national tax gaps. The Cypriot Tax Department does not publish a formal tax gap estimate by tax type or a consolidated total tax gap using a documented bottom-up or top-down methodology. Selected activities relevant to tax gap assessment include the participation in the EU VAT gap exercise. Cyprus' Tax Department and Statistical Service cooperates closely with the experts calculating Cyprus' VAT gap for the EU, providing relevant data and participating in bilateral meetings. Another area is the Excise Gap exercise, part of the Fiscalis Project Group on Excise Gap and Risk. Cyprus's Department of Customs and Excise also takes an active part, responding to survey and data requests and attending relevant meetings.

Cyprus appears to perform relatively well on compliance gaps. Its VAT compliance gap is estimated well below the EU average and among the lowest in the EU. In addition, estimates suggest Cyprus has moderate CIT compliance, below EU averages.

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[22] For data and documents used for calculations by TAXUD, see Section 1.3 "Measures of the non-observed economy and the shadow economy" in Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[23] The (unweighted) EU average does not include Luxembourg.
[24] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.
[25] See Fernandes op. cit. (2025) for an overview of various studies.
[26] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.

2.2 Compliance tax gaps in VAT

For 2023, the VAT compliance gap ([27]) in Cyprus was estimated at around 3% of the VAT Total Tax Liability (VTTL) ([28]), or approximately EUR 100 million. After increasing from 11% in 2019 to around 16% in 2021, it followed a consistently decreasing path until 2023, nearly 8 pps lower than the 2019 level ([29]). Cyprus' VAT compliance gap was well below the EU average of 9.5% in 2023. This decline was linked to a decrease in the share of services in GDP, including a fall in the growth in consumption of hard-to-tax service categories (such recreation, restaurants and accommodation) and a sharp reduction in the growth rate of tourism.

While the Cyprus Audit Office's Special Report (EE-EY 19/2026) recognises the significant progress achieved by the Pan-Cyprus VAT Audit Unit since its establishment in 2024, as well as its contribution to strengthening VAT compliance, the report also identifies a number of organisational shortcomings. In particular, it recommends the adoption of an annual risk-based audit programme and the definition of clear and transparent criteria for case selection. More broadly, the report advocates a comprehensive strengthening of the VAT control framework, including a more systematic risk-based approach to audits, stricter procedural deadlines, and enhanced inter-agency cooperation, with a view to further reducing the VAT compliance gap ([30]).

In 2025, Cyprus launched the digital "Tax For All" (TFA) portal to handle electronic VAT returns, automate deadline reminders, and streamline taxpayer interactions ([31]). This could facilitate the tax authority's oversight and contribute to improving VAT compliance.

2.3 Compliance tax gaps in corporate and personal income tax

The European Commission is not aware of any CIT and PIT compliance gap estimation activity in Cyprus at the time of writing this document. Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and monitoring compliance tax gaps can support tax administration in assessing the effectiveness of their tax policy actions.

European Commission estimates suggest a below-average CIT compliance gap in Cyprus. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data and estimates of the non-observed economy produced by national statistical offices, the CIT compliance gap of Cyprus is estimated at around 4.4% of collected CIT revenues based on 2022 data ([32]). Based on the same methodology, the (unweighted)

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[27] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[28] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[29] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[30] Ειδική-Έκθεση-ΕΕ-ΕΥ-19_2026.pdf.

[31] Eurofast, 2025. Cyprus Tax For All System Restored: New Deadlines and Submission Guidelines for VAT, VIES, and PAYE. Accessed at: https://eurofast.eu/cyprus-tax-for-all-system-restored-new-deadlines-and-submission-guidelines-for-vat-vies-and-paye/.

[32] European Commission estimates are based on a top-down methodology for approximating CIT compliance gaps using national accounts data. The approach relies on exhaustiveness adjustments made by national statistical offices to Gross Operating Surplus, Gross Value Added and Gross Domestic Product in order to account for non-observed economic activity in the compilation of GNI. The method provides a harmonised proxy for domestic underreporting of corporate income, but

average CIT compliance gap is 9.2% of collected CIT revenues across all Member States. Compared to an earlier estimate of around 7.2% in 2017, this indicates a marked decline over time and a clearly below-average level.

Recent changes may reduce the PIT compliance gap. From the 2026 tax year, Cyprus requires all individuals who are Cyprus tax residents and aged 25-70 to submit a tax return, even if they have no income or if their income falls below the EUR 22 000 tax-free threshold.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

While Cyprus does not currently estimate excise tax gaps, it devotes resources to strengthening EU cooperation on excise matters through its participation in the Fiscalis project group on Excise Gap.

There is currently no public information or evidence that Cyprus estimates other compliance tax gaps. There are no official programmes or published figures for compliance gaps related to other taxes.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

Cyprus reports tax expenditures in an annex to the annual budget report ([33]). The estimates are based on the forgone-revenue method, which measures the associated loss of tax revenue. According to the national tax expenditure report, tax expenditures are estimated at around EUR 835 million in 2025 ([34]), equivalent to 8.3% of total tax revenue ([35]) and 2.3% of GDP ([36]). PIT reliefs account for the largest estimated fiscal cost, at EUR 519.9 million. CIT tax expenditures are estimated at EUR 35 million, while VAT-related tax expenditures amount to EUR 175 million. These estimates do not reconcile with the VAT policy gap figures reported in the 2025 "VAT Gap in the EU" report (see Section 3.2), pointing to significant methodological differences.

The scope of Cyprus's tax expenditure reporting remains limited. The national report covers the fiscal impact of 13 relief provisions and provides estimates only for those measures that could be readily quantified on the basis of available data, such as the latest available tax returns. A substantial share of VAT-related provisions is not quantified, as the report notes that these are difficult to assess. The report also does not specify the total number of tax expenditure provisions in the tax system or how many cannot be quantified. However, for the measures covered, the report

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does not capture all sources of CIT revenue losses, in particular those related to international profit shifting or other forms of legal tax optimisation. For further information on the data sources, underlying assumptions and methodological caveats, see Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[33] p.887-896, ΠΑΡΑΡΤΗΜΑΤΑ-ΠΡΟΫΠΟΛΟΓΙΣΜΟΥ-2025-1.pdf.

[34] Ibidem.

[35] Tax revenue EUR 10.05 billion, Part-A-Financial-Report-2025.pdf.

[36] GDP EUR 36 321.5 million, National_Accounts-Annual-2025-EN-020326.pdf.

provides information on the number of beneficiary taxpayers and sets out the main methodological principles.

Compared to other Member States, transparency and comprehensiveness of tax expenditure reporting in Cyprus is lacking (overall ranked 21st). According to the GTETI analysis, transparency in TE reporting in Cyprus is below the EU average overall. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([37]). Maximum value for each dimension is 20. Cyprus is on par with the EU average on Institutional Framework (14.67 vs 14.19). However, 'Public Availability' is below the EU average (7.00 vs 10.26), 'Methodology and Scope' is below the EU average (5.60 vs 9.28), 'Descriptive Tax Expenditure Data' is below the EU average (8.27 vs 11.28), and 'Tax Expenditure Assessment' is below the EU average (4.00 vs 7.34), indicating no benchmark definition, no treatment of structural provisions, no forward projections, no evaluation framework, no ex-post evaluations, no promotion or visibility efforts by authorities, limited information on policy objectives and no information on legal duration or sunset clauses.

Figure 1: Cyprus vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

No evidence could be identified of a systematic evaluation or review of tax expenditures. National sources do not show a dedicated, published evaluation of the tax expenditure annex itself, nor a stand-alone assessment of the tax expenditure report or systematic reviews of the effectiveness of individual tax expenditure measures. While the steps taken so far are a positive starting point, institutionalising regular, independent evaluations of tax expenditures – beginning with comprehensive documentation and recording of the full list of tax expenditures – would strengthen the overall tax system.

[37] See the Global Tax Expenditures Transparency Index (GTETI) companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches) for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

3.2 Policy tax gaps in VAT

Cyprus has recently pursued a cost-of-living VAT relief strategy through temporary ministerial decrees rather than permanent legislative reform ([38]). The zero rate has been repeatedly extended on essential goods – baby milk, diapers, feminine hygiene products, and fresh produce – through 31 December 2026 ([39]), and a new temporary 0% rate was applied to fresh and frozen meat, poultry, and fish from April to September 2026 ([40]) as part of a government package in response to price inflation driven by the conflict in the Middle East. The standard VAT rate on residential electricity was cut from 19% to 9% in April 2025 and further reduced to 5% from May 2026 through March 2027 ([41]). A 5% reduced rate was also introduced for construction and renovation of educational buildings ([42]). At the same time, Cyprus tightened the rules for reduced VAT on immovable property, especially by narrowing eligibility for the reduced rate on primary residences ([43]).

Cyprus's national policy-driven VAT exemption gap and VAT rate gap were below and above, respectively, the EU average in 2023. Revenues forgone due to the application of reduced rates and national policy-driven exemptions reached over EUR 1 billion in 2023 ([44]). The national policy-driven VAT exemption gap ([45]) was estimated at around EUR 250 million in 2023, or 5% of the notional ideal revenue ([46]), while the EU average was 11%. The VAT rate gap ([47]) was estimated at over EUR 750 million in 2023, or 15% of the notional ideal revenue, higher than the EU average of 12%.

Tax-simulations indicate that Cyprus's reduced VAT rates in 2025 are concentrated in a small number of categories, led by 'food and beverages' ([48]). 'Food and beverages' account for the largest share of forgone revenues at 40.8%, close to the EU mean share of 39.8%. 'Restaurants and accommodation' come second at 34.2%, well above the EU mean share of 20.4%. 'Recreation, sport and culture' rank third at 8.1%, below the EU mean share of 13.3%. These three categories account for 83.1% of Cyprus's total forgone revenue.

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[38] Since May 2023, Decree 134/2023
[39] Decree 337/2025
[40] Decree 168/2026
[41] Decree 167/2026.
[42] Decree 364/2025.
[43] Decree 102/2026 and 103/2026.
[44] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[45] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations. The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.
[46] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.
[47] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.
[48] The VAT rate gap is analysed here using EUROMOD's household consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches)

Cyprus's reduced VAT rates lower inequality as measured by the Gini coefficient by 0.67 pps, above the EU average reduction of 0.50 pps. 'Food and beverages' contribute 0.52 pps (76.6% of the total), above the EU mean contribution of 0.32 pps.

3.3 Policy tax gaps in corporate income tax

The definition of CIT tax relief in Cyprus was recently changed. Corporate tax collection represents a much larger share of the total tax revenue, in Cyprus compared to other EU Member States ([49]). In addition, Cyprus recently increased the statutory CIT rate from 12.5% to 15%. Cyprus provides reporting on tax expenditures in the annex of its budget ([50]). For CIT, forgone revenues of EUR 35 million are reported in the 2025 report. Those revenues forgone arise from preferential treatment of investments in R&D. The 2024 report had reported a total of EUR 223 million with EUR 18 million attributable to R&D related investments and EUR 205 million related to tax relief on income from intellectual property rights. The tax expenditure report does not explain the change but it appears to be caused by a change in definition. Tax relief related to income from property rights - an IP box regime with an 80% deduction on qualifying IP profits - appears to have been defined as a structural provision and thus is no longer reported as tax expenditure.

3.4 Policy tax gaps in personal income tax

As regards specific tax expenditures for PIT, Cyprus has several incentives to attract labour that may narrow the PIT base. For instance, to attract certain workers, part of the salaries of qualifying individuals taking up first employment in Cyprus can be exempt from taxation up to 17 years. Cyprus also attracts individuals by taxing foreign-sourced pensions at substantially lower rates or by allowing a lump sum payment to withdraw the entire pension tax free. In addition, non-domiciled Cyprus tax residents are exempt from the Special Defence Contribution, and dividend and most interest income are exempt from taxation in Cyprus. In 2026, Cyprus abolished the withholding tax on deemed dividend distributions and reduced the rate on actual dividends from 17% to 5%, which should lower the tax burden on dividend income.

Tax-simulations suggest that PIT-related tax expenditures in 2025 have negligible distributional implications in Cyprus overall ([51]). PIT-related tax expenditures imply revenue forgone equivalent to 1.0% of actual PIT revenues, well below the EU average of 19.1% ([52]). The largest share of revenue forgone arises from other-related tax expenditures (0.8% of PIT revenue). PIT-related tax expenditures increase the Gini coefficient by 0.05 pps, whereas the EU average is a reduction of 0.46 pps. The relatively limited revenue forgone is associated with a slight increase in income inequality.

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[49] 2026 European Semester: Country Specific Recommendation / Commission Recommendation – Cyprus, https://reforms-investments.ec.europa.eu/document/download/7236f2b4-148f-49fc-bf38-5a7c4f97bad1_en?filename=CY-COM_2026_213_1_EN_ACT_part1_v4.pdf.

[50] See Annex 9 of the 2025 budget, p.887-896, ΠΑΡΑΡΤΗΜΑΤΑ-ΠΡΟΫΠΟΛΟΓΙΣΜΟΥ-2025-1.pdf.

[51] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[52] According to the European Commission's taxation trends data, PIT revenues in Cyprus amounted to approximately EUR 1.3 billion in 2024. This would imply revenue forgone of approximately EUR 13 million due to PIT tax expenditures according to the microsimulation (1.0% of EUR 1.3 billion). Note the considerable difference to the estimate from the tax expenditure report which reports forgone revenues related to PIT in the magnitude of EUR 520 million, almost 40 times larger.

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Cyprus operates a segmented but increasingly unified identification system underpinned by digital reform. Individuals use a single taxpayer account number for all tax obligations, while companies must register with the Tax Department post-incorporation and obtain a separate VAT number. The 'Tax For All' (TFA) portal, Cyprus' centralised platform launched in March 2023 under the EU Recovery and Resilience Facility ([53]), replaces previously fragmented databases, offering a unified taxpayer view and enabling online services (e.g. tax returns, account management, registration updates). Rejection letters for VAT applications are digitally recorded, facilitating transparency.

Digitalised registration and database management rely on the TFA portal but retain manual steps. The TFA platform ([54]) supports fully online registration, data visualisation, and modifications for VAT and other taxes, with real-time access to taxpayer records. VAT registration is not automatic - all applications undergo administrative review via the TFA portal. Implementation of the broader Integrated Tax Administration System (ITAS) to integrate core tax administration functions remains ongoing. The VAT taxpayer database is cross-checked against third-party sources (e.g. economic activity data) and internal tax records to ensure accuracy, while systematic reviews correct inconsistencies. Supporting materials are available in English on the user-friendly TFA portal ([55]).

E-commerce oversight includes a dedicated register supported by internal data cross-checks, but integration gaps remain with additional relevant datasets. Cyprus maintains a separate e-commerce taxpayer register, with oversight supported through One Stop Shop (OSS) registration checks and VAT database cross-references. The register uses information available within the TFA system, including details from taxpayer filings and administrative records. While the system enables preliminary risk screening (e.g. for OSS applicants), full integration with relevant datasets (e.g. the Central Electronic System of Payment Information (CESOP) ([56]), the Directive on administrative cooperation in the field of taxation (DAC) – DAC7 ([57]) and enhanced customs collaboration for e-commerce-specific risks could benefit its effectiveness ([58]).

Risk-based registration leverages the TFA portal's integrated checks but there may be room to further enhance risk detection. Cyprus conducts preliminary screening of high-risk registrations (e.g. OSS applicants) through the TFA portal, using its unified taxpayer database to cross-check VAT registration details against declared economic activity and taxpayer identification

[53] Supported by the EU funded technical support project Improving tax collection and effectiveness of the Tax Department – Reforms and Investments.
[54] Homepage - Tax For All - Gov.cy.
[55] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[56] CESOP is an EU-wide system established under Directive (EU) 2020/284 to support the fight against VAT fraud in e-commerce. It requires payment service providers to report cross-border payment data on a quarterly basis to national tax authorities, which then transmit the information to CESOP. The system centralises and analyses this data, enabling Member States to detect undeclared online sales, identify fraudulent traders, and enhance administrative cooperation in combating cross-border VAT fraud.
[57] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.
[58] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

information. A dedicated OSS information channel and digitally recorded rejection letters enhance transparency, while the Customs Administration – though separate from the Tax Department – operates under the same Ministry of Finance, suggesting potential for closer collaboration. While the TFA system provides a strong foundation for integration, there may be room to further enhance risk detection through expanded data-sharing or real-time validation mechanisms ([59]).

4.2 Tax filing and assessment

Cyprus's tax administration has digitalised core filing processes. The TaxisNet platform and TFA portal enable electronic filing for PIT, CIT, and VAT, including registrations, account access, and payments. The TFA system integrates multiple tax types and supports automatic set-off mechanisms for liabilities and credits. However, manual administrative reviews may be required for record corrections.

Pre-filling currently applies only to PIT using third-party data (e.g. employer/pension reports), improving accuracy. VAT filing remains manual with no pre-filling support. System validations and cross-checks detect inconsistencies during submission, but real-time third-party integration is not documented in available data.

The strong e-filing uptake in 2024 exceeded EU averages across all main taxes. Pointing to a highly digitalised filing environment, the e-filing rate reached 97.3% for CIT, 99.9% for PIT, and 100.0% for VAT ([60]).

Taxpayer support combines digital tools with some AI assistance. The Tax Department offers practical tools to assist taxpayers, including calculators for PIT, withholding tax, and VAT for the purchase/construction of a house, with plans to add a CIT calculator. There is also a general chatbot available to the public, which provides guidance on tax queries, digital service navigation, and accessibility improvements ([61]).

Cyprus uses only partially the data obtained through the automatic exchange of information (AEOI), under the DAC ([62]), - namely DAC1 ([63]), DAC2 ([64]), and DAC7 - for the purposes of personal income taxation. While the identification of the taxpayers concerned has improved in 2025, the matching rates ([65]) measuring success in identifying registered taxpayers with DAC data remain below the EU average (74% for DAC1 ([66]), 73% for DAC2 ([67]), and 79% for DAC7, the EU average being 84%, 90% and 86% respectively). In this respect, due to the transliteration issues facing during the fuzzy matching process, the TIN validation tool envisaged in

[59] Ibidem.
[60] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB
[61] Tax Tools - Tax Department and findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[62] Sources: Yearly Assessment 2026.
[63] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.
[64] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on financial accounts.
[65] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[66] Income from employment, pensions, director's fees, immovable properties.
[67] In 2024, matching rates were 45% (DAC1) and 12% (DAC2).

the DAC recast proposal will support the matching process to approach a 100% automatic matching rate, ultimately allowing Cyprus for a more efficient and targeted deployment of resources. Once the taxpayers concerned have been identified, tax authorities use the available data for tax risk assessment to detect possible undeclared income and, if relevant, tax assessments or general audit. As regards financial assets and bank accounts of individual taxpayers, Cyprus carries out nudge letter campaigns for compliance purposes and uses data on legal entities in the context of tax audits on demand. As legal entities represent a large part of the reports from financial institutions under DAC2, Cyprus should include them in their compliance campaigns in order to maximise the benefits of using DAC data. Regarding the most recent exchange of information on income from digital platforms (DAC7), Cyprus uses all available data not only for PIT and CIT purposes but also for VAT purposes. Cyprus should also strengthen its monitoring system to better assess the benefits of using DAC particularly with regard to the revenue generated from its use.

Cyprus has not been very pro-active in VAT administrative cooperation ([68]). In 2024, Cyprus sent 27 requests for information and received 197 requests ([69]). Based on a standardised measure, taking into account the relative size of the Cypriot economy, Cyprus is significantly below the EU weighted average on the number of requests sent and above the EU weighted average on the number of requests received ([70]).

Cyprus records limited results in automatic exchange of VAT information. In 2024, Cyprus reported 7 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, Cyprus has not forwarded any cases. Based on a standardised measure, considering the relative size of the Cypriot economy, Cyprus is below the EU weighted average on VAT identification numbers allocated to taxable persons not established in the Member State ([71]).

4.3 Compliance risk management

Cyprus' compliance risk management system (CRM) is formal but limited in scope and transparency. The CRM strategy covers only return filing and audits, excluding payment processing, collection enforcement, and taxpayer services. The system identifies, assesses, and prioritises compliance risks using tax returns, audits, and third-party data, but results are not publicly disclosed ([72]).

Cyprus operates AI pilots for risk assessment and staff support. The Tax Department is piloting AI tools to enhance compliance management, including a risk analysis and predictive

[68] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.

[69] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

[70] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Cyprus sent 0.78 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 5.67 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[71] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Cyprus reported 0.20 VAT identification numbers allocated to taxable persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP.

[72] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Cyprus, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/2563165.

analytics module for proactive risk identification and an internal chatbot for tax officers. These tools are part of a phased AI adoption strategy, with plans to integrate them into a Large Language Model (LLM) environment for broader digital capabilities ([73]).

Cyprus does not apply documented behavioural insights in its compliance strategies. While digital tools (e.g. chatbots, PIT pre-filling) support compliance by simplifying processes, there is no evidence of a formal behavioural-insights programme (e.g., nudges, trials, or structured behavioural design). The focus seems to remain on digitalisation and automation rather than behavioural interventions.

Cyprus uses CESOP data manually for targeted VAT compliance checks. The Tax Department uses CESOP data to identify high-risk sectors (e.g. Airbnb, restaurants, taxis). Audit teams make manual comparisons with tax returns, the VAT Information Exchange System (VIES), and DAC7. Matching is limited to single-taxpayer cases, avoiding complex multi-VAT scenarios, and Excel-based analysis remains the primary method of analysis ([74]).

Cyprus does not use DAC3 data ([75]) and makes a very limited use of DAC4 ([76]) and DAC6 ([77]) for risk assessment. The Cypriot tax authorities do not systematically identify the taxpayers concerned (hence no matching rate was provided to the Commission services), they do not integrate DAC3, DAC4 and DAC6 data in risk-analysis systems, and use it only on a case-by-case basis for tax enquiries or audits. This situation has not substantially evolved over time; therefore, Cyprus should take concreate actions to monitor and significantly improve the use of DAC3, DAC4 and DAC6 data in order to tackle all relevant risks (e.g. risks related to transfer -pricing, base erosion and profit shifting, harmful tax practices, etc). Particularly, the lack of information on the number of identified taxpayers and the exclusive use of manual matching techniques highlights the need for the Cypriot tax authorities to move to an automated matching model in order to increase their efficiency as well as their effectiveness in detecting aggressive tax arrangements and profit-shifting issues. Moreover, Cyprus should use DAC6 data to close possible legal loopholes which enable tax evasion schemes. This aspect was also mentioned in the latest European Court of Auditors report on harmful tax regimes ([78]). This situation should be significantly improved through proactive measures that deliver tangible results.

4.4 Audits

Cyprus's audit system targets non-compliance through a range of interventions. Since 1 January 2026, legislative amendments have strengthened the Tax Department's enforcement powers, including the possibility to suspend business operations for serious tax infringements and

[73] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection.
[74] Ibidem.
[75] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on tax rulings and advance price agreements.
[76] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on country-by-country reports from multi-national entities.
[77] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information on potentially harmful cross-border arrangements.
[78] Special Report 27/2024: Combatting harmful tax regimes and corporate tax avoidance.

enhanced powers to obtain information for tax investigations. At the same time, further digitalisation of audit and risk assessment processes remains ongoing ([79]).

The Tax Department relies on Robotic Process Automation (RPA) for administrative tasks. Future plans may explore AI for decision support, pattern recognition, and process optimization ([80]).

Cyprus' Large Taxpayer Office (LTO) handles major businesses with focused resources. The LTO manages large corporations and generates 21.5% of total tax revenue while using only 5.3% of staff, all dedicated to audits.

Cyprus very rarely uses advanced instruments of administrative cooperation: multilateral controls (Simultaneous controls, joint audits) and presence in administrative offices and administrative enquiries (PAOEs) are provided for in the Directive on administrative cooperation in the field of taxation and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025 Cyprus has participated in 2 MLC, representing respectively 0.7% of the total. However, Cyprus has not initiated any MLC, neither initiated nor participated in any PAOE.

4.5 Payment and collection

Cyprus's digital tax compliance is progressing but retains gaps. In 2025, 96% of tax payments were electronic, up from 37.6% in 2018, reflecting growing digital adoption ([81]). However, data for 2024 regarding on-time payment rates for CIT, PIT or VAT are not available. While no statutory cash payment ban is confirmed, the Tax Department prioritizes electronic payment channels.

Cyprus links VAT refunds to registration checks and compliance risk management. The Tax Department verifies taxpayer identities during registration to prevent fictitious traders from entering the VAT system. VAT refunds are integrated into the compliance risk management system, and a penalty system for late filing/payment has been consistently enforced since 2019 ([82]).

4.6 Tax debt recovery

Cyprus faces persistent challenges in tax arrears recovery, with high arrears levels and fragmented processes despite strict write-off rules. The closing stock of tax arrears has remained relatively stable in recent years, at 57.3% of total revenue in 2024 (following a peak at 62.3% of total revenue in 2023), which is significantly above the EU average (30.7%). The share of collectable arrears also stayed broadly unchanged at 54.5% in 2024 ([83]).

Cyprus lacks a formal tax recovery strategy. By classifying taxpayers based on their risk of non-payment, the strategy could tailor recovery efforts appropriately, focusing resources on areas where they will be most effective. While recovery rules apply uniformly across tax types (VAT,

[79] https://www.gov.cy/app/uploads/sites/11/2025/05/CY-APR-2026-Final.
[80] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[81] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[82] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[83] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.

income taxes, excise duties), responsibility is split between authorities: the Tax Department handles VAT and income taxes, while the Customs and Excise Department manages excise and import duties. Specific legislation governs cooperation with insolvency administrators ([84]), but recovery efficiency remains constrained. Ongoing digitalisation efforts could support the future development of a targeted recovery strategy.

Tax debt write-offs follow strict, multi-layered procedures. VAT and income tax cases require Technical Committee review, with income tax write-offs additionally needing Council of Ministers approval; excise debts are assessed case-by-case under Law 38(I)/2014. This cautious approach ensures oversight but may delay decisions and reduce flexibility. No disaggregated data exists on the duration of tax disputes, which usually suspend recovery while cases are under administrative or judicial review ([85]). Cypriot law prohibits tax collection during open disputes, further complicating enforcement ([86]).

Cross-border recovery assistance shows compliance in outgoing requests. Cypriot recovery requests to other Member States generally comply with requirements ([87]), focusing on well-established claims. Only 9 recovery requests were suspended in 2025, while 113 requests for recovery were sent to other Member States in the same year ([88]).

Similarly, it appears that DAC data (DAC1, DAC2 or DAC7) is not being used for tax recovery purposes. This data is not being used even though this could improve tax collection rates by leveraging international assistance.

[84] Cyprus's replies to questions 34-36 of the 2025 survey on tax recovery.
[85] Cyprus's replies to questions 12 and 13 of the 2025 survey on tax recovery.
[86] ISORA Data – Tax arrears collection powers and their usage – Collect any disputed tax while the dispute case is open and under judicial review.
[87] Statistics on rejections of requests, reported by Cyprus as applicant State, relating to recovery assistance in 2025.
[88] Statistics on the suspension of recovery requests, sent by Cyprus as applicant State, following contestation of the claim, for 2025.